Office of the City Auditor

Audit of the
Department of Public Works and Public Utilities Inventory/Storerooms

Report Date: March 21, 2016

Office of the City Auditor
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“Promoting Accountability and Integrity in City Operations”
Office of the City Auditor

“Promoting Accountability and Integrity in City Operations”

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Date: March 21, 2016

To: Phil A. Davenport, Director, Department of Public Works
    Bob Montague, Interim Director, Department of Public Utilities

Subject: Audit of the Department of Public Works and Public Utilities Inventory/Storerooms

I am pleased to present the report of our audit of the Department of Public Works and Public Utilities Inventory/Storerooms. The objectives of our audit were to document the processes for accounting, purchasing, safeguarding, and issuing inventory and supplies at these locations.

Findings considered to be of insignificant risk have been discussed with management. We completed fieldwork on February 5, 2015.

The Office of the City Auditor reports to City Council through the City’s Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, Department of Public Works, Department of Public Utilities, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the Department of Public Works and Public Utilities for their courteous and prompt assistance during our audit. The staff was receptive and excellent to work with.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
   Audit Committee Members
   David Hansen, City Manager
   Thomas M. Leahy, III, Acting Deputy City Manager
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Purpose

The purpose of our audit was to determine if internal controls over storeroom inventory at the Department of Public Works and Public Utilities has been implemented and working effectively to ensure proper accounting of inventory, safeguarding of assets, and reported on the City’s financial statements.

Scope & Objectives

The scope of the audit covered the inventory and storeroom policies and procedures at Public Works (including Building Maintenance) and Public Utilities in place during fiscal year (FY) 2016. The objectives of our review were:

- To document the procedures and related controls for the ordering, receiving, issuing, and recording of storeroom inventory.
- To assess whether those controls are designed effectively to reduce risk to an acceptable level and to determine whether the procedures/controls are being complied with.
- To review the year-end physical inventory procedures and associated reconciliations.

Methodology

To accomplish our objectives, we performed the following procedures:

- Obtained and reviewed the written policies and procedures for operation of the storerooms including the ordering, receiving, issuing, and recording of inventory items.
- Interviewed various storekeepers, accountants, supervisors, and other personnel to document inventory and the processes of the Hansen inventory management system.
- Performed walkthroughs of all inventory storerooms and outlying inventory locations to obtain understanding of different inventory types, storage conditions, and security measures that are in place for safeguarding.
- Performed tests of inventory including the ordering, issuance of inventory, and random physical counts and reconciliation to the book amount in the Hansen inventory management system.
- Discussed with Finance the Administrative Directive 6.01 - Asset Management requiring all storerooms with at least $50,000 in inventory to develop policies and procedures for management of inventory and annual physical counts thereof.
- Developed recommendations for enhancing internal controls over the management of storeroom inventory.
Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City’s Audit Committee, City Council, Department of Public Works and Public Utilities and appropriate management. This report will also be made available to the public.
Background

Public Works

The Department of Public Works is one of the largest departments in the City. It is the responsibility of the Department to successfully manage all aspects of major roadway construction and associated infrastructure improvement projects, traffic control and preventative maintenance and repair programs to maximize the useful life of the City's roadways, residential streets, and related traffic devices. They also maintain the public beaches; maintenance dredging of Rudee Inlet; manage the storm water infrastructure; conduct traffic management operations; mosquito population assessment and control. The Waste Management and Automotive Services divisions are also under the oversight of Public Works. In FY 2016, Public Works has approximately 904 full-time employees, including 174 employees with the Building Maintenance division.

The Operations division of Public Works maintains several outlying inventory locations throughout the City: Operations/Dam Neck Road, Mosquito Control/Pleasant Ridge Road, Dredge Operations/Bells Road, Oceana Yard/Oceana Boulevard, Beach Operations/Parks Avenue, Euclid Yard/Southgate Avenue. Pictured below are outlying inventory locations.
The Building Maintenance, Automotive Services, and Waste Management divisions of Public Works have their own administrative and operating locations.

In support of their operations, Public Works/Operations currently maintains over 2,800 inventory items that total about $3.3 million at these locations. Note: As a complete physical inventory has never been conducted, the actual amount of inventory on-hand is unknown.

### Table 1: Materials Inventory Listing – March 18, 2016

<table>
<thead>
<tr>
<th>Stock Location</th>
<th>Inventory Value</th>
<th>Primary Yard/Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIGNALS</td>
<td>$1,157,060</td>
<td>Operations/Dam Neck Road</td>
</tr>
<tr>
<td>STREET/STORM</td>
<td>$870,373</td>
<td>Operations/Dam Neck Road</td>
</tr>
<tr>
<td>SIGNS</td>
<td>$545,796</td>
<td>Operations/Dam Neck Road</td>
</tr>
<tr>
<td>MOSQUITO</td>
<td>$203,014</td>
<td>Mosquito Control/Pleasant Ridge Road</td>
</tr>
<tr>
<td>PW TOOL ROOM</td>
<td>$147,598</td>
<td>Operations/Dam Neck Road</td>
</tr>
<tr>
<td>BRIDGES</td>
<td>$128,974</td>
<td>Operations/Dam Neck &amp; Beach Operations/Parks Avenue</td>
</tr>
<tr>
<td>OCEANA</td>
<td>$82,198</td>
<td>Oceana Yard/Oceans Boulevard</td>
</tr>
<tr>
<td>PUNGO</td>
<td>$62,601</td>
<td>Mosquito Control/Pleasant Ridge Road</td>
</tr>
<tr>
<td>BEACH MAINT</td>
<td>$47,767</td>
<td>Beach Operations/Parks Avenue</td>
</tr>
<tr>
<td>EUCLID</td>
<td>$38,363</td>
<td>Euclid Yard/Southgate Avenue</td>
</tr>
<tr>
<td>DREDGE</td>
<td>$10,116</td>
<td>Dredge Operations/Bells Road</td>
</tr>
<tr>
<td>ENVIR</td>
<td>$1,858</td>
<td>Operations/Dam Neck Yard</td>
</tr>
</tbody>
</table>

**Total Inventory Value** $3,295,718

NOTE: On February 2, 2016, Hansen system reported approximately $8.4 million in inventory. Subsequent to our audit, management identified major discrepancies in unit costs totaling $5,141,633. (see Management Response-Appendix A). Thus, the above table reflects the adjusted inventory totals.

Public Works/Operations uses the Hansen Work Order Management system to track and manage inventory. They currently have one Storekeeper III that manages the storeroom and two Storekeeper II’s who place orders and prepare the requisitions (the Storekeeper III does too on occasion). They also have two contract employees employed as Storekeeper I’s that do the physical receiving. A Storekeeper I does data entry into Hansen. An Account Clerk III in the front office does the payment vouchers.
Facilities Management/Building Maintenance division of Public Works provides building maintenance services in all City-owned buildings and spaces. These services include management and support, electrical, heating & air conditioning, painting, exterminating, and custodial. Building Maintenance’s storeroom is located in Building 9 at the City’s Municipal Center. There are over 6,000 inventory items valuing $3.75 million managed by Building Maintenance. They use the inventory management system called MP2 to track and manage inventory. The MP2 system uses a scanner device to track inventory and update the inventory database. They currently have one Storekeeper Supervisor, two Storekeeper II’s, and one Storekeeper I. The Storekeeper Supervisor does the ordering for supplies less than $1,000 while the front office does ordering above $1,000. All storekeepers do receiving provided the receiver was not the one who ordered the items.

Public Utilities

The Department of Public Utilities provides water and sanitary sewer services to Virginia Beach’s residential and commercial customers. The water distribution system is the part of the utility infrastructure that carries potable water from the water treatment plant and delivers it to customers. The water system includes nine water pump stations and 10 storage facilities. The water system also provides fire protection through more than 8,500 fire hydrants installed throughout the pipe network throughout the city. The sanitary sewer system is the part of the utility infrastructure that carries wastewater from individual properties and delivers it to one of two Hampton Roads Sanitation District (HRSD) sewer treatment plants in the city. The sanitary sewer system includes 408 sanitary sewer pump stations. In FY 2016, Public Utilities have approximately 417 full-time employees.

Public Utilities/Operations also use the Hansen Work Order Management system to track and manage inventory. There are over 6,500 inventory items valuing over $2.3 million managed by Public Utilities. They currently have one Storekeeper Supervisor and one Storekeeper III to manage the storeroom function, two accountants for purchase ordering and tracking of
inventory, and two Storekeeper II’s who directly handle inventory in the storeroom and back outside area.

The scope of our audit reviewed the three storerooms of Public Works/Operations, Building Maintenance, and Public Utilities/Operations representing over 15,000 inventory items valuing over $9.4 million. We visited each location to determine what internal inventory controls were in place and tested these controls. Below is the summary of the approximate number of inventory items and their values.

Table 2: Number of Inventory Items and Inventory Value in Audit Scope

<table>
<thead>
<tr>
<th>Storeroom</th>
<th># of Items</th>
<th>Inventory Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Works/Operations</td>
<td>2,800</td>
<td>$3,295,718</td>
</tr>
<tr>
<td>Building Maintenance</td>
<td>6,000</td>
<td>$3,753,507</td>
</tr>
<tr>
<td>Public Utilities/Operations</td>
<td>6,500</td>
<td>$2,373,046</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>15,300</strong></td>
<td><strong>$9,422,271</strong></td>
</tr>
</tbody>
</table>

Source: Hansen Work Order Management System (Public Works/Public Utilities)
MP2 Inventory Management System (Building Maintenance)
Results

Public Works/Operations

After we met with Public Works/Operations management and interviewed storeroom personnel, performed walkthrough of the Dam Neck storeroom and yard, and visited the outlying yards; we have identified several severe internal control deficiencies over inventory management within the Public Works/Operations. These deficiencies are:

Finding 1: No established policies and procedures for inventory

There are no established policies and procedures to properly account for and safeguard the inventory. We acknowledge that Public Works has a draft of policies and procedures and is further developing the final version; however, there were no policies and procedures in force at the time of our review.

Having established policies and procedures for inventory management helps to ensure consistent application of internal controls for accountability and tracking of inventory. Policies and procedures also help to ensure management and storekeepers know their responsibilities in regards to inventory handling. Furthermore, the Finance Asset Management Manual (FAMM) and the Administrative Directive (AD) 6.01 - Asset Management requires departments with at least $50,000 in inventory storerooms to have written procedures for asset controls and safeguards.

Recommendations
We recommend that the Department of Public Works:

1.1 Complete the policies and procedures for storeroom inventory management to include the requisitioning, receiving, issuing, recording, and conducting an annual physical inventory including a full reconciliation to the book inventory.

1.2 Maintain clear separation of duties between the requisitioning, receiving, issuing, and recording functions.
Finding 2: No Yearly Physical Inventory

Despite having approximately, $3.3 million dollars of inventory, Public Works has never completed a full physical inventory of the storeroom. This is a critical key to internal control over inventory. A yearly physical inventory helps to determine whether book inventory and on-hand quantities agree and very importantly helps to determine if internal controls are working effectively to minimize risk of shrinkage. FAMM requires an annual review of storeroom inventory as of June 30\textsuperscript{th} of each year. In addition, because the annual physical inventory was not completed the inventory was not recorded on the City’s financial statements thereby causing understatement of assets.

Furthermore, management identified over $5.1 million in inaccurate unit costs subsequent to the completion of our audit and adjusted the Hansen system accordingly. The adjustment for the inaccurate unit costs brought inventory down to approximately $3.3 million. (see Management Response- Appendix A). On February 2, 2016, the Hansen system showed reported $8.4 million in inventory. Had a physical inventory been regularly conducted such discrepancies would had been identified earlier. Management acknowledged that the book inventory quantities in the Hansen Work Order Management system have many errors. Thus, the true amount of the inventory on-hand is unknown.

Recommendations
We recommend that the Department of Public Works:

2.1 Conduct a year-end physical inventory and reconcile on-hand quantities with book quantities indicated in Hansen Work Order Management system and as reported in the City’s financial system (InSITE).

2.2 Report results of the annual physical inventory and reconciliation to Finance for reporting on the City’s financial statements by the last day in July each year.
Finding 3: Weak Controls over Access to Storeroom Inventory

There are very weak controls over who has access to storeroom inventory. Employees requesting storeroom items can enter and pick up inventory items themselves without supervision of the storekeepers. Authorization and access to inventory should be strictly limited to minimize the risk of shrinkage. FAMM and AD 6.01 requires procedures to safeguard the Public Works storeroom inventory.

These internal controls deficiencies severely impact the accuracy of inventory reporting in the Hansen Work Order Management system and on the City’s financial reports. Without internal controls over inventory, there is a high risk that items are not properly accounted for which can lead to loss or theft of assets.

Recommendation
We recommend that the Department of Public Works:

3.1 Implement a policy limiting physical access to the Public Works storeroom and issuance of inventory to the storekeepers.
Public Works/Building Maintenance

While Building Maintenance is under Public Works, they are separate from the Public Works Operations storeroom.

We determined that Building Maintenance storeroom has adequate policy and procedures, a secure storeroom with limited access only to storekeepers, and they do conduct a yearly physical inventory. However, the reconciliation of on-hand quantities and book inventory, an important part of the yearly physical inventory, was not completed for at least the past two years. The storeroom supervisor does do periodic spot physical inventories throughout the year; however, a yearly physical inventory with complete reconciliation is needed to ensure the financial report representation is accurate.

A reconciled and accurate book inventory is needed to conduct a successful physical inventory each year thereby we did not complete fieldwork sample physical counts and testing of internal controls during this audit at Building Maintenance.

Finding 4: Physical inventory and reconciliation not being conducted annually

Recommendation
We recommend the Department of Public Works/Building Maintenance:

4.1 Conduct year-end physical inventory and reconcile on-hand quantities with book quantities indicated in the MP2 system and reported in InSITE.

4.2 Report results of the annual physical inventory and reconciliation to Finance for reporting on the City’s financial statements by the last day in July each year.
Public Utilities/Operations

After conducting our audit of we have determined that Public Utilities/Operations:

- Has written and established policies and procedures in place for management of their inventory;
- Has strong separation of duties between purchasing, receiving, issuing, record-keeping of inventory database, and payment functions;
- Strong internal controls over the safeguarding of inventory items;
- Yearly physical inventory with proper reconciliation; and
- Financial representation in the City’s financial system (InSITE) and financial reports.

We have determined Public Utilities/Operations have adequate internal controls.

We tested key controls of inventory record keeping, issuing of inventory items, and purchase orders. Results of these tests are listed below.

Inventory Counts
To test the internal controls over the receiving, issuing, and recording of inventory movement in the Public Utilities/Operations storeroom, we judgmentally selected 32 inventory items from the day’s inventory listing printed from the Hansen Work Order Management system. We went to the storeroom and the outside storage area to count the selected items and compared our physical count to the book inventory as reported in the printout. The physical count did not match the book inventory for five (5) items; however, three (3) items had issuances that day and hereby matched our counts. The remaining two (2) items’ differences are shown in Table 3 below:

<table>
<thead>
<tr>
<th>Stock #</th>
<th>Description</th>
<th>Reconciled Count</th>
<th>Book</th>
<th>Difference</th>
<th>Unit Cost</th>
<th>Difference Cost</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>U30936</td>
<td>Coupling Cast</td>
<td>479</td>
<td>483</td>
<td>(4)</td>
<td>$4.26</td>
<td>($17.04)</td>
<td>Very high turnover item</td>
</tr>
<tr>
<td>U39337</td>
<td>Safety Vest 4X</td>
<td>209</td>
<td>185</td>
<td>24</td>
<td>$13.85</td>
<td>$332.40</td>
<td>Possible size mix-up</td>
</tr>
</tbody>
</table>
We then conducted reverse testing by selecting and counting 31 inventory items from the floor in the storeroom to compare to the listing. The physical count did not match the book inventory for six (6) items. The differences are shown below in Table 4.

<table>
<thead>
<tr>
<th>Stock #</th>
<th>Description</th>
<th>Reconciled Count</th>
<th>Book Count</th>
<th>Difference</th>
<th>Unit Cost</th>
<th>Difference Cost</th>
<th>Storeroom Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>U27949</td>
<td>Bearing Ball</td>
<td>8</td>
<td>7</td>
<td>1</td>
<td>$249.25</td>
<td>$249.25</td>
<td>Possible return not recorded</td>
</tr>
<tr>
<td>U35003</td>
<td>Safety Vest 2X</td>
<td>40</td>
<td>50</td>
<td>(10)</td>
<td>$8.94</td>
<td>($89.40)</td>
<td>Possible size mix-up</td>
</tr>
<tr>
<td>U32855</td>
<td>PVC Bell/Spigot</td>
<td>11</td>
<td>13</td>
<td>(2)</td>
<td>$15.75</td>
<td>($31.50)</td>
<td>Don't know</td>
</tr>
<tr>
<td>U39769</td>
<td>Moto Mix</td>
<td>107</td>
<td>119</td>
<td>(12)</td>
<td>$5.03</td>
<td>($60.36)</td>
<td>Very high turnover item</td>
</tr>
<tr>
<td>U15730</td>
<td>Spray Paint Blue</td>
<td>172</td>
<td>176</td>
<td>(4)</td>
<td>$2.47</td>
<td>($9.88)</td>
<td>Very high turnover item</td>
</tr>
<tr>
<td>U31705</td>
<td>Saw Plastic Pipe</td>
<td>32</td>
<td>33</td>
<td>(1)</td>
<td>$12.94</td>
<td>($12.94)</td>
<td>Loaned out/not issued</td>
</tr>
</tbody>
</table>

**Issuances**

When inventory items are issued from the Public Utilities/Operations storeroom, the storekeeper completes the Material Issued Record ticket from which the Hansen Work Order system is updated. To test the issuing function of the storeroom, we selected 31 Material Issued Record tickets representing 113 inventory items issued dating from July 2015 to January 2016. We determine the items and quantities issued were correctly entered into the Hansen Work Order system and that the tickets had all applicable information and were appropriately signed by the requestor. Out of 113 inventory items issued that we tested, we found four (4) exceptions as listed in Table 5.
Table 5: Exceptions of Testing of Issuing Inventory Function

<table>
<thead>
<tr>
<th>Stock #</th>
<th>Description</th>
<th>Date</th>
<th>Ticket Quantity</th>
<th>Hansen Quantity</th>
<th>Nature of Exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>U39166</td>
<td>14” Hip Boots</td>
<td>7/29/2015</td>
<td>1</td>
<td>2</td>
<td>Entry error</td>
</tr>
<tr>
<td>U07099</td>
<td>Disinfectant</td>
<td>9/24/2015</td>
<td>1</td>
<td>1</td>
<td>Wrong issued date entered</td>
</tr>
<tr>
<td>U00320</td>
<td>Digger P.H.</td>
<td>11/24/2015</td>
<td>1</td>
<td>0</td>
<td>Not entered into Hansen</td>
</tr>
<tr>
<td>U01175</td>
<td>D.S. Shovel</td>
<td>11/24/2015</td>
<td>1</td>
<td>0</td>
<td>Not entered into Hansen</td>
</tr>
</tbody>
</table>

**Purchase Orders**

Public Utilities/Operations maintain a separate requisitioning function from receiving and issuing functions of the storeroom. To test this function, we selected 31 purchase orders from July 2015 to January 2016 to review for appropriate signatures, appropriate items ordered, and supporting documentation such as quotes, packing slips, and justification when applicable. We noted no exceptions in regards to requisitions/purchase orders.

**Year-End Physical Inventory and Reconciliation**

We reviewed Public Utilities/Operations’ last physical inventory dated June 2015. They only make adjustments to the book inventory if three separate counts by different people are the same. Out of 5137 items counted, adjustments were made for 753 items, an 85.3% accuracy rate by item count. Total absolute value of changes was $155,442.38 out of $2,242,050.65 value of inventory at time of count, a 93.1% accuracy rate. This suggests most of the quantity adjustments to the book inventory were of smaller unit cost items. The net adjustments were $2,284.75 or only .1% of total value of inventory.

Public Utilities/Operations’ past experience point to physical count versus book inventory differences being due to such things as:

- A receipt that never made it into InSITE or it was received in InSITE but never received in the Hansen Work Order system;
- InSITE also tracks items that the Hansen Work Order system does not, like blanket releases, the capital assets, the repair work orders, and maintenance contracts. It was determined that there was possible miscoding between the above items.
- On the stock items, the system does not use actual value. They went through all of the LIFO and FIFO scenarios and the old inventory system (before Hansen) that was on the mainframe used average. After they discussed each scenario, it was decided that average cost actually comes the closest. Hansen Work Order Management system uses an inventory average cost value.
Conclusion

We determined that the Department of Public Works/Operations and Building Maintenance divisions could improve their internal controls over inventory by implementing the audit recommendations.

We determined that the Department of Public Utilities/Operations division storeroom’s policies and procedures and internal controls are working effectively for management and handling of their storeroom inventory.

Acknowledgements

We would like to thank the Department of Public Works/Operations and Building Maintenance divisions and Department of Public Utilities/Operations division for their assistance during our review. They were open to our suggestions and accommodating. They were also prompt with our information requests and willing to address all of our inquiries.
INTER-OFFICE MEMORANDUM

DATE: March 17, 2016

TO: Timothy J. Bell, Senior Auditor

FROM: Mark A. Johnson, P.E., Operations Engineer

SUBJECT: Response to Results for the Audit of the Department of Public Works/Operations Inventory/Storerooms

Public Work Operations has reviewed the draft audit report dated, February 18, 2016 and offer the following actions with respect to the three (3) findings and five (5) City Auditor recommendations. While we agree with the findings, it was also noted during the initial review that there were several unit cost errors that Supplyroom staff were in the process of correcting when the February 18th draft report was released. Public Works request that the report be modified to reflect these four (4) errors as indicated in the attached table and reduce the initial inventory value by $5,141,633. While this will result in an estimated inventory in excess of $3 million, we feel it is more realistic of the level of inventory currently in stock. Below are the five City Auditor recommendations followed by Public Works action.

1. Complete the policies and procedures for storeroom inventory management to include requisitioning, receiving, issuing, recording, and conducting an annual physical inventory including a full reconciliation to the book inventory
   • Action: A technical writing team has been established to finalize the draft Public Works Standard Operating Procedure, Storeroom Procedures document. The document was developed to meet the conditions AD 6.01 and the Finance Asset Management Manual. The document is scheduled to be complete by June 30, 2016 and will be submitted to Finance Department with the June 30, 2016 inventory list and value prior to July 31, 2016.
2. Maintain clear separation of duties between the requisitioning, receiving, issuing, and recording functions.
   • **Action:** Staffing requirements are being reviewed and existing positions will be reclassified or contract workers will be hired to insure adequate separation of duties.

3. Conduct a year-end physical inventory and reconcile on-hand quantities with book quantities indicated in Hansen Work Order Management system and as reported in the City’s financial system (InSITE).
   • **Action:** A physical inventory and reconciliation process has been established where the count is conducted by teams of two staff members. One staff member from the operating division and a 2nd from a separate division are conducting inventory counts. A reconciliation process has been identified to compare actual count to Hansen Inventory count. The reconciliation is actual inventory count equals Hansen inventory count plus received inventory (not yet entered into Hansen) minus closed work orders (not entered into Hansen). Inventory count for the Signals Stock is currently underway and is scheduled to be finalized by March 18, 2016. The schedule is to inventory the remaining seven stock areas and reconcile for submission to Finance Department in July. In addition, the inventory items units of measurement and prices are being reviewed and corrected for every stock location.

4. Report results of the annual physical inventory and reconciliation to Finance for reporting on the City’s financial statements by the last day in July each year.
   • **Action:** A fiscal year-end inventory of all stock areas will be conducted and reconciled for submission to the Finance Department by the last day in July each year.

5. Implement a policy limiting physical access to the Public Works storeroom and issuance of inventory to the storekeepers.
   • **Action:** Each stock location is under review with respect to access to inventory. Policies and procedures will be developed with respect to each location by June 30, 2016. In addition, staffing will be reviewed to determine if additional staff is needed to safeguard inventory items.

I would like to thank the City Auditors staff for reviewing the Public Works Operations storeroom and making recommendations to improve our inventory control processes. We agree with the recommendations and have taken action as noted above. If you
should have any comments or questions please let me know. I can be reached at 385-8431 or via email at MAJJohnso@vbgov.com.

MAJ/pjk

Enclosure (1)

cc: Lyndon Remias, City Auditor
    Phillip A. Davenport, Director – Public Works
    Phillip J. Koetter, P.E., Operations Management Administrator – Public Works
### MAJOR Discrepancies in Unit Cost

<table>
<thead>
<tr>
<th>Location</th>
<th>Item</th>
<th>Description</th>
<th>Unit of Measure</th>
<th>On Hand</th>
<th>2/2/2016</th>
<th>2/2/2016</th>
<th>3/16/2016</th>
<th>3/16/2016</th>
<th>DELTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signs</td>
<td>LJP0001</td>
<td>Printable White Reflective Vinyl 48&quot;</td>
<td>FT</td>
<td>2400</td>
<td>$219.00</td>
<td>$525,600</td>
<td>$2.95</td>
<td>$7,080.00</td>
<td>$216.05</td>
</tr>
<tr>
<td>Signs</td>
<td>LJP0006</td>
<td>Clear Graffiti Protective Overlay 30&quot;</td>
<td>FT</td>
<td>3375</td>
<td>$450.00</td>
<td>$1,518,750</td>
<td>$1.66</td>
<td>$5,602.50</td>
<td>$448.34</td>
</tr>
<tr>
<td>Signs</td>
<td>LJP0015</td>
<td>ECO-SOL MAX ink</td>
<td>ml</td>
<td>6160</td>
<td>$128.99</td>
<td>$794,578</td>
<td>$0.27</td>
<td>$1,663.20</td>
<td>$128.72</td>
</tr>
<tr>
<td>Signals</td>
<td>ITS0023</td>
<td>THHN 14 Gauge Ground Wire Stranded Green</td>
<td>FT</td>
<td>3800</td>
<td>$610.00</td>
<td>$2,318,000</td>
<td>$0.25</td>
<td>$950.00</td>
<td>$609.75</td>
</tr>
</tbody>
</table>

$2,824,583  error in Sign inventory due to typo in Unit Cost

$2,317,050  error in Signal inventory due to typo in Unit Cost

$5,141,633  Total error due to typos in Unit Cost
INTER-OFFICE MEMORANDUM

DATE:    February 22, 2016

TO:      Timothy Bell, Office of the City Auditor

FROM:    Buddy Gilbert, DPW/Building Maintenance

SUBJECT: Response to Auditors Recommendations

Public Works/Building Maintenance recently received a copy of the City Auditor’s results from the audit of the Department of Public Works and Public Utilities Inventory/Storerooms. The audit cited two recommendations which were discussed with Gloria Tanner, Storeroom Supervisor, and the following will be adhered to:

- Year-end physical inventory and reconciliation of on-hand quantities with book quantities indicated in the MP-2 system will be completed by the last day of June each year.
- Results of the annual physical inventory and reconciliation will be reported to Finance by the last day of July each year.

If I can provide any further information or assistance, please contact me at 757-385-8546 or email me at wgilbert@vbgov.com.

Thank you.

BG/jlh
February 22, 2016

Lyndon Remias, CPA, CIA, CRMA
Office of the City Auditor

Mr. Remias:

I was pleased with the overall findings by you and your staff of the Public Utilities Inventory/Storeroom. We are fortunate to have dedicated staff members managing this function, and your report appears to provide excellent validation of their efforts.

I would like to extend my appreciation to your staff for their thoroughness and professionalism throughout the audit process.

Sincerely,

Robert S. Montague, Jr.
Acting Director

/mb